Tenaga Nasional (TNB MK)

Tenaga To Spearhead Malaysia's Cross-border Energy Transmission Expansion

	BUY (Maintained)
Share Price	RM13.24
Target Price	RM16.30
Upside	23.1%

Highlights

- Tenaga is poised to benefit from the numerous projects under the ASEAN Power Grid initiative, including: a) the Malaysia-Singapore second power interconnection, and b) the Sarawak-Peninsular Malaysia interconnection project.
- Malaysia's nuclear energy adoption is expected to be a boon to Tenaga should they be the frontrunners to pioneer Malaysia's first nuclear power plant.
- Maintain BUY with a DCF-based target price of RM16.30.

Analysis

- **ASEAN's energy transformation: Second Malaysia-Singapore power interconnection.** Last week, Tenaga Nasional (Tenaga) signed a joint development agreement (JDA) with SP Group and Singapore Energy Interconnections (SGEI) to conduct a feasibility study for a second interconnection between Peninsular Malaysia and Singapore. Slated for commercial operations in 2030, the second interconnection will pave the way for cross-border trade of up to 2GW of electricity, promoting grid resilience and energy security in support of the ASEAN Power Grid (APG).
- **Sarawak-Peninsular Malaysia interconnection.** Separately, Tenaga is currently finalising potential partners for a JV consortium to develop the Sarawak-Peninsular Malaysia interconnection project. The project will promote the transmission of up to 2GW of renewable energy (primarily hydropower) from Sampadi near Kuching to Sedili, Johor via a 700km submarine cable. The project will be a key component of the APG initiative. A full feasibility study is scheduled to commence in Jan 26. The consortium is expected to see a 51% local equity participation and 49% ownership by international partners.
- **Tenaga to benefit from higher capex spent.** The above projects are expected to benefit Tenaga on two fronts: a) higher capex for the regulated business, which accounts for 80-90% of Tenaga's group net profit; and b) opportunities to offer cross-border electricity trade sale within the region. This will fall under Tenaga's unregulated business and provides growth opportunities beyond the muted growth under the regulated IRB segment.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	63,665	56,737	59,022	61,616	64,286
EBITDA	17,840	20,542	21,450	22,171	22,866
Operating profit	6,574	9,309	9,949	10,723	11,468
Net profit (rep./act.)	2,770	4,699	4,349	4,642	4,940
Net profit (adj.)	3,735	4,329	4,349	4,642	4,940
EPS	65.7	76.1	76.5	81.6	86.9
PE	20.2	17.4	17.3	16.2	15.2
P/B	1.3	1.2	1.2	1.2	1.2
EV/EBITDA	6.5	5.5	5.4	5.1	4.9
Dividend yield	3.5	3.9	3.9	4.0	4.3
Net margin	4.4	8.3	7.4	7.5	7.7
Net debt/(cash) to equity	72.0	62.6	66.2	61.2	56.3
Interest cover	4.7	5.9	5.6	5.3	5.1
ROE	4.7	7.9	7.1	7.4	7.8
Consensus net profit	-	-	4,413	4,790	5,083
UOBKH/Consensus (x)	-	-	0.99	0.97	0.97

Source: Tenaga, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,821.9
Market cap (RMm)	77,177.8
Market cap (US$m)	18,246.2
3-mth avg daily t'over (US$m)	18.3

Price Performance (%)

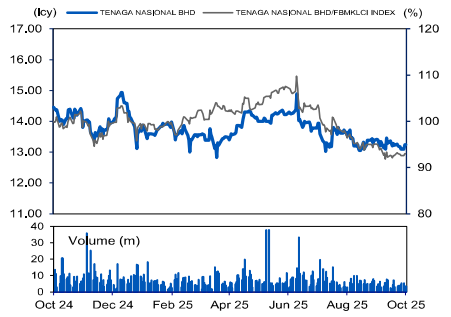
52-week high/low				RM15.04/RM12.66
1mth	3mth	6mth	1yr	YTD
(1.0)	(3.9)	(1.9)	(9.8)	(11.4)

Major Shareholders

	%
EPF	18.9
Khazanah Nasional	18.1
Amanah Saham Nasional	12.3

FY25F NAV/Share (RM)	10.92
FY25F Net Debt/Share (RM)	7.11

Price Chart



Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

- **Tenaga likely to lead Malaysia's foray into clean and sustainable nuclear energy.** We understand from industry experts that Malaysia is likely to decide on a potential nuclear plant-up sometime in 2030. Assuming there is political will to go through with a nuclear power plant, commercial operation could commence sometime between 2040-45. The recently-approved amendments to the Atomic Energy Licensing Act 1984 (Act 304), scheduled to be gazetted on 1 Dec 25, will enable the government to establish a more robust legal framework for atomic energy development to ensure alignment with current technological advancements and international standards.
- **A private sector venture.** Industry experts have advocated for nuclear energy development to be driven by private sector participation (namely Tenaga and Petronas), to promote greater independence and transparency in the enforcement of future nuclear regulatory frameworks. Commanding a projected payback period of around 20 years, followed by solid cashflow and profit contributions for the next 60 years, nuclear power plant owners can potentially benefit in the long run despite requiring substantial upfront capital (1,000MW: US$2b-6b).

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium on the stock at 7.8% reflects Tenaga's tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 17.3x 2025F EPS, +2SD above five-year mean PE.

Earnings Revision/Risk

- No change to earnings.
- Key risks include: a) unfavourable outcome on Reinvestment Tax Allowance appeal; b) lumpy and unprofitable overseas renewable energy projects, and c) forex risk to operating cash flow.

Share Price Catalyst

- **Key re-rating catalysts** include: a) giving Tenaga the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) recognition of contingent capex in the 2026-27 earnings window; c) listing of a profitable genco and/or renewable energy division, and d) benefitting from the APG rollout.

Environmental, Social, Governance (ESG)

Environmental

- Besides targeting 8,300MW in renewable energy generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and being coal-free by 2050.

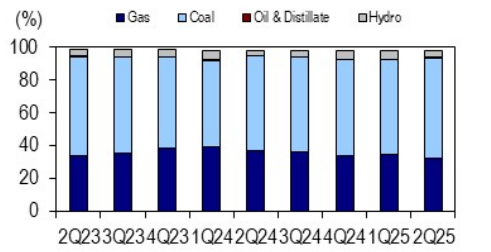
Social

- Established a collaborative partnership with YPM to provide support for the education of underprivileged B40 students. GMB contributed RM407,000 to this initiative, benefitting 1,100 B40 students.

Governance

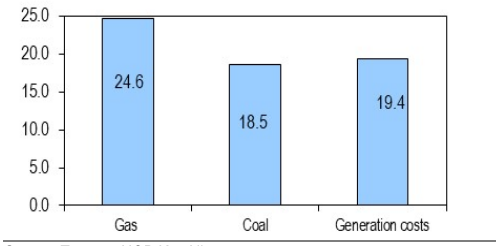
- Good company transparency along with an anti-bribery and whistle-blowing policy.

Generation Mix



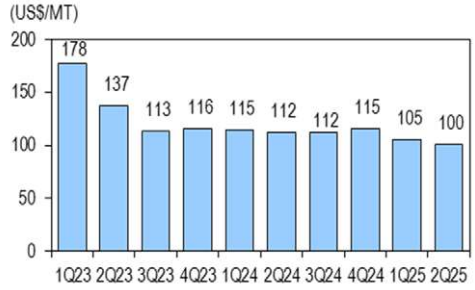
Source: Tenaga, UOB Kay Hian

Generation Unit Cost (2Q25)



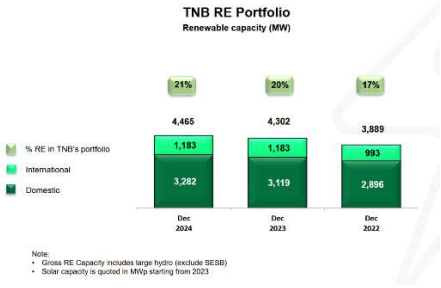
Source: Tenaga, UOB Kay Hian

Quarterly Coal Prices



Source: Tenaga, UOB Kay Hian

Tenaga's Renewable Energy Portfolio



Source: Tenaga

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**56,737**	**59,022**	**61,616**	**64,286**
EBITDA	20,542	21,450	22,171	22,866
Deprec. & amort.	11,232	11,501	11,448	11,399
EBIT	9,309	9,949	10,723	11,468
Total other non-operating income	(25)	0	0	0
Associate contributions	108	113	119	124
Net interest income/(expense)	(3,469)	(3,804)	(4,166)	(4,491)
Pre-tax profit	**5,815**	**6,258**	**6,676**	**7,101**
Tax	(1,085)	(1,877)	(2,003)	(2,130)
Minorities	(31)	(31)	(31)	(31)
Net profit	**4,699**	**4,349**	**4,642**	**4,940**
Net profit (adj.)	4,329	4,349	4,642	4,940

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	125,611	124,977	124,396	123,864
Other LT assets	39,137	39,250	39,368	39,493
Cash/ST investment	19,601	16,302	18,185	20,098
Other current assets	20,707	21,247	21,859	22,490
Total assets	**205,056**	**201,775**	**203,808**	**205,945**
ST debt	6,276	6,176	6,076	5,976
Other current liabilities	27,693	23,131	23,689	24,279
LT debt	51,131	51,031	50,931	50,831
Other LT liabilities	57,387	57,387	57,387	57,387
Shareholders' equity	60,371	61,820	63,465	65,180
Minority interest	2,199	2,230	2,261	2,292
Total liabilities & equity	**205,056**	**201,775**	**203,808**	**205,945**

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**22,447**	**14,472**	**20,113**	**20,696**
Pre-tax profit	815	6,258	6,676	7,101
Tax	0	(1,877)	(2,003)	(2,130)
Deprec. & amort.	11,232	11,501	11,448	11,399
Associates	(108)	(113)	(119)	(124)
Working capital changes	0	(5,101)	(55)	(40)
Non-cash items	0	0	0	0
Other operating cashflows	10,508	3,804	4,166	4,491
Investing	**(11,595)**	**(10,279)**	**(10,302)**	**(10,240)**
Capex (growth)	(11,264)	(10,867)	(10,867)	(10,867)
Investments	0	0	0	0
Others	(331)	588	565	627
Financing	**(12,752)**	**(7,493)**	**(7,928)**	**(8,544)**
Dividend payments	(2,900)	(2,900)	(2,997)	(3,225)
Issue of shares	201	0	0	0
Proceeds from borrowings	(4,364)	(200)	(200)	(200)
Others/interest paid	(5,689)	(4,393)	(4,731)	(5,119)
Net cash inflow (outflow)	**(1,900)**	**(3,299)**	**1,883**	**1,913**
Beginning cash & cash equivalent	**17,225**	**15,369**	**12,070**	**13,953**
Changes due to forex impact	43	0	0	0
Ending cash & cash equivalent	**15,369**	**12,070**	**13,953**	**15,866**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	36.2	36.3	36.0	35.6
Pre-tax margin	10.2	10.6	10.8	11.0
Net margin	8.3	7.4	7.5	7.7
ROA	2.3	2.1	2.3	2.4
ROE	7.9	7.1	7.4	7.8
Growth				
Turnover	(10.9)	4.0	4.4	8.9
EBITDA	15.1	4.4	3.4	6.6
Pre-tax profit	72.4	7.6	6.7	13.5
Net profit	69.6	(7.4)	6.7	13.6
Net profit (adj.)	15.9	0.5	6.7	6.4
EPS	15.9	0.5	6.7	13.6
Leverage				
Debt to total capital	91.7	89.3	86.7	84.2
Debt to equity	95.1	92.5	89.8	87.2
Net debt/(cash) to equity	62.6	66.2	61.2	56.3
Interest cover (x)	5.9	5.6	5.3	5.1

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